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FINAL TRANSCRIPT

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SFD - Q4 2009 Smithfield Foods Earnings Conference Call

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PRESENTATION

Operator

Welcome to the Smithfield Foods fourth quarter conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Instructions will be given to you at that time. (Operator Instructions). As a reminder, today's conference call is being recorded. I would now like to turn the conference over to Keira Ullrich. Please go ahead.

Keira Ullrich - *Smithfield Foods - Director of IR*

Good morning. Welcome to the conference call to discuss Smithfield Foods' fourth quarter and full year fiscal 2009 results. We would like to caution you that in today's call, there may be forward-looking statements within the meaning of Federal Securities Laws. In light of the risks and uncertainties involved, we encourage you to read the forward-looking information section of the Company's 10-K for fiscal year 2008. You can access the 10-K and our press release on our website at www.SmithfieldFoods.com. On our call today are Larry Pope, President and Chief Executive Officer, Bo Manly, Chief Financial Officer and Dick Poulson, Executive Vice President. This is Keira Ullrich, Director of Investor Relations. In order to provide the opportunity to as many analysts as possible to ask questions during the Q&A session later in our call, we will request that you ask only one question and one follow-up if necessary.

Larry Pope will begin our call this morning with a review of operations. Larry?

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Larry Pope - *Smithfield Foods - President, CEO*

Thank you, Keira. And welcome to the call, of our fourth quarter and year end numbers for Smithfield Foods. I'll hope you take note that Keira Ullrich is now responsible for our Investor Relations activities. Jerry Hostetter is no longer with the Company, and Keira has taken that over as the Director. I hope you'll pass on your comments to Keira. I think she's doing an excellent job.

Now to the numbers. We are reporting a loss this morning. Income or loss really from Continuing Operations for the quarter is $78.8 million or $0.55 a share, compared with $1.8 million last year or a $0.01 a share for the year. That's $242.8 million loss or $1.72 compared with $139.2 million profit or $1.04 in profit for last year. Clearly, this has been a very, very tough last six months and year and the Company is reporting its first loss in over 30 years and certainly that is troubling to this management team.

We fully expected this. We telegraphed this to you as early as the end of our second quarter, that we knew these grain costs were going to be embedded in the inventory levels of the hogs and as we saw forward into the livestock markets on the futures market, we were pretty darn sure that we were going to have a tough third quarter and a tough fourth quarter and that's exactly what happened.

I can summarize the quarter and I can summarize the year very, very succinctly in saying that we have a hog production issue. The part of the business that has carried this organization for many years has flipped on its head as a result of sharply increased raising costs last year that we've talked about many, many times and those are continuing into the fourth quarter, just as we had told you they would be, and that raised our cost on a comparable basis from $54 a hundredweight to $63 a hundredweight. We had begun to see some of this in the fourth quarter of last year. When you do that math that works out to be with a little bit of pickup we got on the live hog market, that works out to be about $8 a hundredweight differential, and so our losses are $20 a head worse than they were last year this time and that's $90 million if you look at the information we provided in a write-up, the press release, you'll see that we attribute $88 million of that to increased grain costs.

So it doesn't take a rocket scientist to figure out that the issue is grain cost and that has got to be resolved one of two ways. Either grains have got to moderate or the live hog market has got to move up and be transferred through in terms of higher meat prices to consumers. I have made some comments in the earnings release about my concerns around the ethanol policy, which in my mind is a hidden tax on this industry and on the American consumer that's not so easily being played out and is certainly not being announced and it has been devastating to this industry, it's actually been devastating to the ethanol industry and as oil prices moved back up from those lows we saw a few months ago, they move upward, I think the continuation of this ethanol policy and even the mandate toward increased blending rates could continue to create pressures for this business and everyone in the livestock business and everyone that uses grains in their manufacturing process. It is an issue.

In terms of the year-to-date numbers, where you see the continuing huge losses on the hog production side, once again, over $500 million of that is related to increased grain cost and so it is very much a function of that. In addition, we've got an oversupply of livestock. I think many have written about that. We announced a 5% reduction last February, a year ago. Last summer, we quietly increased that amount to 10% and as of January, we had reduced our herds by over 100,000 sows and two million hogs on an annual basis.

I am reporting to you this morning that we have initiated a third round of sow herd reductions and we will be reducing our herds another 3% effectively immediately. In fact, we started the reduction yesterday. It will take us about eight weeks to effect that reduction. It is largely with hogs that are supplied to an outside, one of our competitors, and we will be making those reductions immediately. So we, from my standpoint, we're doing our part in this industry to continue to right-size the business from a production standpoint, to match the demand, and we'll have to see how the industry goes from there, from its standpoint. So that's sort of the summary of it.

Beyond the hog production, our international business is a bit of a mixed bag. Our Romania and Poland business as well as Mexico are very strong, very profitable. We did have some currency losses that went against us in Romania and Poland and

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even Mexico but still, those businesses are very solid, even in the face of sharply higher live hog prices, those businesses are doing very well and I'm very satisfied. Some of the things we put in place a number of years ago in Poland and now in Romania are starting to bear nice fruit and I am highly encouraged by what's going on in Central Europe and in Mexico.

Our Group Smithfield merger that was completed at the end of the calendar year is now moving forward. We have a lot of initiatives in place there, Smithfield is the 37% shareholder. Unfortunately it is in the middle of a Western European recession that is adversely affecting that business pretty significantly as we rely upon largely packaged meats and fairly high priced branded packaged meats and those markets have been hit pretty hard with migration away from the brands so we are seeing deterioration on that side.

Before I go to the meat business, I'll talk about the other category which is our Butterball business. Clearly, that's been impacted by these grain prices. Turkey is almost a direct correlation there. Finally, we have liquidated the cattle that we have left over from the beef operations. We have some somewhat significant losses as those have just run out and the cattle markets have gone against us in this process. That's what's driving the other category.

Now to the meat business. The meat business is nothing short of excellent. I could not be more pleased with the way that business is being run. The management change we made last May the first with George Richter and the operating presidents as well as the changes we made with moving Joe Luter IV to an Executive Vice President and Bo Manly in as Chief Financial Officer have been just stupendous. I could not be happier with the people and their positions and the jobs they are doing. The meat business is performing very, very well.

Fresh pork of late has been weak. Certainly as we move into the first quarter, the swine flu or A H1N1 as we all know it is, had little effect on the end of last fiscal year, and it had a little bit of an impact as we came into the beginning of this quarter. If you read the earnings release, you'll see that in large part that's behind us from a demand standpoint. It's not behind us from a pricing and export standpoint. But fresh pork had a solid year, not terrific. It had a weak end of the year earnings.

The processed meats on the other side had another record year. Our packaged meats business is doing extremely well. As I've mentioned to you for now for more than two years, we had a plan in place to increase our margins on packaged meats to $0.10 a pound on a pretax basis. I can report to you today that we have achieved that goal. And in the most recent quarters we surpassed that goal and so that part of the business is going extremely well. As you know, in February, we announced a restructuring of our Pork Group, not in reaction to the recession that was out there and not in reaction to any pressure from our lending institutions, but rather it's the result of the many acquisitions we have done and to put this business in a position where it can be highly competitive and that we could utilize our manufacturing facilities to the fullest extent.

We have a plan to close six plants. As of today, one of those plants has been closed. As of this Friday, a second plant will be closed. As of next Friday, a third plant will be closed. And by the middle of July, two more plants will be closed. So five of the six plants will have been shuttered by the middle of July and we have one plant in Smithfield, Virginia, that we are relocating between two major facilities and we have to do some construction work, so we will be migrating from one to the other but it will not be completely shuttered until just after the first of the year. So it will be the sixth plant and the last plant but for all intents and purposes, the vast majority of the restructuring that we have been -- we laid out in February, will have been completed this summer and early this summer.

I am fully confident that we will accomplish what we said, we would accomplish on the restructuring. We announced that we thought we would pick up $55 million even after paying $27 million in increased inefficiency cost and relocation costs. We fully expect that to be true. We think we're getting some of those benefits already. We will be spending a little over $50 million, a lot of it in Smithfield, Virginia, to fix the hog coolers and put on a shipping dock and then we expect as we move forward, we will start to see a run rate of $125 million a year, bottom line impact, with about two-thirds of that going to the packaged meats business and the remaining one-third showing up on the fresh meat side of the business. These are fully accomplishable.

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I think we are well on our way to doing it. I see nothing in the future that's going to prevent that. The processed meats business continues to be very well run. And our fresh meat business continues to get much, much better. We have made a number of changes in our fresh meat business. As I think I mentioned on a prior call, we brought in somebody from an industry expert, about a year ago, to give us some -- to walk through our plants and give us a list of ideas. We have implemented many of those ideas and I expect that we will have more to implement. However, those benefits are already significant to the tune of $1 a head already in terms of what we've already implemented.

The meat business is extremely bright. The things that we're doing I think put us in a position to be a fierce competitor to not only weather this recessionary period from a meat standpoint but actually excel. Clearly, the lower priced raw material has helped that business. However, as we look at the business, how we look at our relationship between the selling price and where our costs line up, we see a lot of the cost and the benefits are being driven out of what we call below the line and so we believe that the margins we're achieving in the packaged meats business are fully sustainable. We may see some margin pressure or squeezing, if raw material moves up sharply, which it probably has to do if these grain prices continue at these kinds of levels, it will have to happen. But our basic structure has been radically improved and will improve even more by the remainder of this calendar year and by then I think this thing will be fully behind us.

Our retail business is very strong and the business is up. We're seeing a sort of a flat level to slightly down on our food service business. But the margins are very solid and some of this we had designed. So that part of the business I can't say anything that I'm not pleased about. I want to make a few comments in terms of the overall management strategy and the proactiveness in terms of how we looked at this business and what we've done. Before I do that, I think I'll turn it over to Mr. Manly and let him give you the financial update and then I'll speak to that as well as a look forward after Bo's given his comments. Bo?

Bo Manly - *Smithfield Foods - CFO*

First, a couple of housekeeping items. Fiscal 2009 that we just finished was a 53 week year. Second, the results of Campofrio and Group Smithfield will now be presented as a combined entity in the international segment. Prior year results for the two companies will be combined for year-over-year comparative purposes.

Fiscal 2009 can be described by the familiar Charles Dickens quote, it was the best of time and it was the worst of times. Smithfield Foods had the first annual loss in 30 years. We reported a loss from continuing operations of $243 million for the full year, and a $79 million loss for the fourth quarter. This translates to per share loss of $1.72 from continuing operations for the year, and a loss of $0.55 for Q4. Very poor results from swine production continued to dominate the Company's income statement. The impact of the recession began to take its toll on the demand for pork during the second half of the fiscal year. The extent and duration of the decrease in demand is not certain, while the ethanol crude oil link to corn prices puts pressure on raising costs.

It was the best of times. Packaged meats had record-setting results in both total operating profit and margin per pound. We improved packaged meats profits by approximately $100 million year-over-year, margins averaged better than $0.12 per pound.

It was the best of times. Restructuring of the pork segment is well under way with benefits building through fiscal 2010 with a net EBT improvement of $55 million this year, and increasing to an annual EBT improvement of $125 million by fiscal 2011. Pork results reflect $88 million in restructuring charges absorbed in the third quarter of fiscal 2009. Restructuring charges declined to $27 million in 2010 and zero by 2011.

It was the best of times. Our international meat processing and swine production enterprises with the exception of Campofrio Group Smithfield have shown big improvements. It was the best of times. Liquidity was over $1.1 billion at year end. All covenants are being met. Despite record losses, the Company generated cash flow from operations of $269 million. We reduced working capital by $679 million total debt by over $890 million.

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It was the best of times. We've shed non-core assets and continue to look for further opportunities. Capital expenditures continued to be held at bare bones maintenance levels. We are living in an interesting and rapidly changing era, as Larry had emphasized. We have been extremely proactive in addressing operational issues, corporate structure and overhead, shrinking CapEx, focusing on return on invested capital, addressing covenant issues in a timely manner, deleveraging the balance sheet and reducing balance sheet risk.

At this moment, let me address my most frequently asked questions. First, we are in covenant compliance through the fourth quarter and project continued compliance in the current quarter and beyond. We firmly believe we will adequately address all covenant issues in the foreseeable future. Secondly, we increased liquidity during the quarter by over $100 million. We ended the fourth quarter as I said with over $1.1 billion in available borrowing capacity under our revolving credit agreements.

Third, in our last earnings call we described refinancing discussions with our lenders. At the present time, we are unable to provide details but I would describe the dialogue as ongoing and fruitful. We have demonstrated over the past year that we have behaved fiscally conservative and financially proactive. We continue to pledge to you that we will continue to be financially proactive. And as I have indicated previously, all financial options remain available to us. In addition, we have demonstrated a proactive operational focus in the past year with three significant structural changes. The sale of the beef group, reduction of 10% of our US sow base with more to come, and the pork segment restructuring project. The beef group sale generated needed cash and created greater focus on our core business and reduced our exposure to the commodity risks associated with cattle feeding. The decrease in sow base will help balance US supply and demand, exit less efficient operations and reduce exposure to commodity price risk.

The pork segment restructuring will produce $55 million EBT improvement in fiscal 2010, net of expenses. And $125 million EBT improvement in fiscal 2011. The majority of EBT improvement will be derived from overhead and SG&A savings in packaged meats. The EPS impact should be approximately $0.50 per share.

As Larry indicated, we believe A H1N1 flu virus is behind us. It may however have been the tipping point in worldwide pork demand. At the onset of flu crisis in very late April, we were optimistically headed into a period of higher meat prices due to smaller seasonal pork supplies. The news of the flu hit the air waves then. Pork prices instantaneously fell and demand shifted downward. While the psychology surrounding flu has passed, recessionary pressures worldwide persist. Lower price levels are needed to clear the market despite shrinking supplies. This is a classic definition of demand shift. Further reductions in supply are likely necessary to put meat prices higher and we are doing our part.

Our export demand held through April. We have exported more pounds of meat, albeit at marginally lower price levels than a year ago. When flu hit, both China and Russia closed their borders or delisted previously approved plants. This situation persists today, not because of flu or food safety issues, but more so to prop up our domestic pork prices and protect their domestic producers. This embargo is very costly to Smithfield and other US producers.

Pork segment reflects record profits in packaged meats, offset by deteriorating fresh meat performance, particularly in the fourth quarter, and $88 million in restructuring charges in the third quarter. Pork segment operating profits declined $54 million for the year to $395 million after absorbing $88 million in restructuring charges and declined $28 million to $111 million for the fourth quarter compared to the same period a year ago. Packaged meat's operating profits improved approximately $100 million year-over-year. The improvement came principally from reduced SG&A and better sales margins. International operating profits for fiscal 2009 were $35 million.

Operating profits declined $42 million year-over-year, mainly due to sharp decline in Campofrio Group Smithfield earnings. This was particularly true in the fourth quarter due to the impact of recessionary pressures on Western European consumers against the heavily branded packaged meats portfolio of the new Campofrio Food Group. Our other international enterprises showed strong operating improvements. Our Polish and Romanian and Mexican meat operations were profitable in the fourth quarter. The hog production segment remains the Company's Achilles Heel. The results for the full year climbed from a loss of

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$98 million in fiscal 2008 to an unprecedented $521 million loss in 2009. Hog production losses increased $42 million, to a loss of $171 million in Q4.

International swine production, while still showing negative results, cut losses significantly in the second half of the fiscal year, with higher European meat prices than the US. Lower grain prices eased their cost of production as well. In the fourth quarter, the impact of hedges and other year end adjustments caused hog production costs to rise slightly. In our last conference call, you may recall that we anticipated a slight decrease in cost from Q3 to Q4. This did not happen due to the adjustments mentioned above. The encouraging news is the Company's high priced grain purchase commitments are in the past. Pigs are eating cheaper corn every day, lowering their breakevens.

Production costs are coming down. Costs are projected to average below $0.60 per hundredweight in this first fiscal quarter and average in the low to mid 50s for the second half of the fiscal year if grain prices remain in their current range. The other segment results for the year and the quarter showed significant losses in Butterball Turkey and our cattle feeding activities subsequent to the beef group sale. Cattle feeding lost $16 million in Q4 and $29 million for the full year. A substantial amount of our cat inventories were sold in the fourth quarter. We ended the fiscal year with 44,000 head of cattle and inventory, down from several hundred thousand cattle at end of last December. These remaining head will be sold in the first quarter of fiscal 2010. The Company will have no further exposure to live cattle commodity risks.

Butterball continues to raise prices to cover higher raising costs. After experiencing substantial losses compared to a year ago, turkey operations significantly cut their losses in the fourth quarter as the industry cut production and tried to find the appropriate supply/demand balance. Turkey performance is anticipated to return to profitability as we move into the third quarter of fiscal 2010. The changes in corporate segment results for the fourth quarter and full year fiscal 2009 compared to the same periods in 2008 were principally caused by $15 million in incremental currency losses in Q4, and $30 million in incremental currency losses for the full year.

SG&A was flat for Q4 and declined $15 million for the full year, mainly due to decreased compensation expenses, more than offsetting currency losses. SG&A expense totaled $798 million for fiscal 2009. We project SG&A for fiscal 2010 will be approximately $200 million per quarter, assuming a return to normal levels of compensation during the coming year. Smithfield experienced extremely wide swings in the past year in the value of the Mexican peso, Polish Zlotych, and Romanian Lei. These currencies had risen steadily, at a steady pace over the past several years, but came crashing down in the last half of the past fiscal year, generating large swings in FX in many of these overseas enterprises.

Interest expense for the fourth quarter was $55 million, up $13 million from the same quarter a year ago, and up $24 million for the full fiscal year compared to 2008. Despite the large reduction in debt over the course of the year, interest expense increased due to higher rates on our revolvers, subsequent to the covenant amendments, amortization of fees associated with the two amendments this year as well as two debt deals. Finally, interest expense allocated to the beef group was moved out of 2008 interest expense into discontinued operations, further skewing year-over-year comparisons. Full year interest expense from fiscal 2009 was $209 million. We expect interest expense in 2010 to be between $55 million and $60 million per quarter.

The full year fiscal 2009 effective tax rate was 34.3%. The effective tax rate for fiscal 2009 was 34.3% as well. And the projected tax rate for fiscal 2010 is between 34 and 35%. The loss from continuing operations for the full year includes a pretax hedging loss of $9 million. The operating loss in the fourth quarter includes a pretax hedging loss of $38 million. For the fourth quarter of last year, had $17 million of unrealized mark-to-market gains that flowed through the P&L.

Turning to the balance sheet for a moment, we reduced debt, capital leases and notes payable by $895 million since the beginning of the fiscal year, dropping total debt from $3.9 [million] to just less than $3 billion at the end of fiscal year. This brought the debt to capitalization ratio down from 56% to 54% in Q4. We reiterate our goal of achieving a debt-to-cap ratio of less than 50% over the next 18 months. These reductions in overall debt levels reflect management's continued effort to improve the balance sheet through asset sales, aggressively managing capital expenditures, issuing equity and early repayment of long-term debt. Working capital requirements were reduced by $679 million over the course of the past fiscal year as well.

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Full year depreciation in fiscal 2009 was $269 million. We anticipate depreciation in fiscal 2010 will be $253 million, due to lower CapEx spending in the last fiscal year. The Company's efforts to put constraints on capital spending since January of 2008 have had a significant impact on cash flow. For the fiscal year just ended, capital expenditures totaled $175 million. This is a bare bones maintenance level and compares to full year depreciation of $269 million at an average capital spending of over $460 million in each of the two prior years. Capital expenditures will remain under pressure until profitability returns to normal levels. Capital expenditures for fiscal 2009 is projected to be $195 million to include $45 million in pork restructuring CapEx.

In summary, this past year was the most difficult and complex year in Smithfield's history. It was the worst of times and the best of times. We had positive cash flow despite record losses. We continued to hit record results in packaged meats. We slashed CapEx and are maintaining spending discipline. We sold non-core assets to pay down debt and looked for additional opportunities for non-core divestitures. We decreased debt by almost $900 million and are committed to continued balance sheet improvements.

We maintain robust liquidity, ending the year at over $1.1 billion in available credit lines. We secured covenant amendments on a timely basis. We initiated a pork restructuring plan that will enhance EBT by $125 million and A H1N1 flu is over. However, anything that breathed lost money. The best news of all is the raising costs are declining, the broader industry and banking sector appear poised to finally begin a significant herd reduction to reduce supplies and raise prices. We are expecting dramatic improvement in performance as we move into the new fiscal year and we continue to improve the balance sheet and will be proactive in addressing all financial issues before any matter becomes critical.

Thank you for your attention. And I'll now turn it back to Mr. Pope. Larry?

Larry Pope - *Smithfield Foods - President, CEO*

Thank you, Bo. You can see that Bo gave you a fairly complete review of both the financial and some of the business, reiterating some of the things that I said. I want to point out that I think that we have reached an inflection point. I think that many producers last year were looking at the futures markets, had bought some corn, maybe at some advantageous prices, had not gone through the hedge, had looked to the summer and saw the possibility of substantially increased live hog prices and this thing would be over.

I think the bloom is off that rose. The H1N1 virus certainly had dramatic impacts on the live hog market. The market continues to be depressed today. I believe that these summer futures are now at the lowest levels on record. And so farmers now see that cutbacks I believe are the answer to their troubles and that we can get back to profitability but we probably cannot without solving this oversupply issue that's out there. I think that has be a change, and I think Bo pointed out to you that the bankers feel the same way.

I see that as, in spite of the negatives that are going on and the fact that we are continuing to incur significant losses on the raising side, which will flow into the first quarter and will likely flow into the second quarter, we will continue to experience losses I think in live hog production through the second quarter of this fiscal year and maybe the third. I thought as well some of the reductions that we had announced would have had an effect on this. The export markets continue to be, in spite of what you may be reading and hearing with the exception of China, which is closed to US exports, because of the swine flu impact, the export markets are good and the other markets are open. We are actively selling them, including Russia. So that is a very positive out there.

Certainly, China is a big market in terms of volume. It's our single largest but not just a touch bigger than the others. From a dollar standpoint, it's not the largest market for us and so the export markets are still very positive and I think they will -- US pork is very cheap relative to other pork around the world and so I think we will have a competitive advantage for that going forward. Freezer stocks are low which means that there's not a lot of pressure from the freezer inventories on the markets. And that should help this business. And from my standpoint, I think this coming year's going to be certainly better than last year. That's not saying much. That's like saying you can't fall out of a basement window.

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Certainly, this was a horrible year. Felt like we had one hurdle after the next to jump. And we continue I believe from a management standpoint, I give my team very high marks for dealing with each of the issues as they came at us, including the accusations that we were the source, we're ground zero for the, quote, swine flu. We certainly dispelled that rumor completely on our own by going out and testing at the farm and having it genetically sequenced under supervision of the Mexican government and the US authorities and completely dispelled any of the claims that we were the people responsible. We have the highest level of biosecurity on our farms. I can tell you that those farms in Mexico are extremely well-protected and we were very comfortable we were okay from that standpoint. So as each hurdle has been thrown up to this management team, I give the team very high marks for having dealt with them.

I look back and debate, what should we have done had we known all the future, I guess we wouldn't have hedged the corn last summer. If I had perfect knowledge, we wouldn't have done that. It was clearly the thing to do at that point in time and probably given the same situation, we would do it again. As we look forward, looks like grain's not going to go to levels this coming year. It is elevated. We are as you all know, that follow the markets, we are over $4 on the corn so we still have fairly high priced corn in spite of the fact that everybody's saying it's not seven.

We have the pressures from our government that wants to convert more than one-third of the corn crop into ethanol, approaching half of all the corn which can just be overwhelmingly devastating to the livestock industry and put the whole protein industry in complete jeopardy until prices adjust, and prices will adjust. We will simply reduce supply and this will adjust. That part I am sure of. Supply and demand work in this business. There have been some false hopes out there with some people have seen forward in the futures market but I think that hope is over and I think the corrections are coming. The management team is on the game.

Bo pointed out to you that from a financing standpoint, we stayed ahead of the wave. I think that we've got very strong liquidity today. We have extremely good relationships with our lenders out there. They've been very cooperative with us. We amended covenants well in advance of any issues. I would tell you today that we as well are talking to all the appropriate people to make sure that nothing slips up on us and gets us -- that we haven't thought through, and Bo and his team are doing an excellent job from that standpoint, and I think that from a financing standpoint we want to make sure we have the financial resources and the balance sheet to weather any storm, anticipating that we would have the balance sheet even if the storm got worse.

We would still have the balance sheet to weather through that. We will take the steps that are necessary to ensure this organization is financially strong. We are building it through the restructuring to be one powerhouse that I can be extremely proud of. Many times I think there's been said the industry number of years ago that Smithfield was the sleeping giant and if the sleeping giant ever awakened, there would be issues that the rest of the industry would have to deal with.

I would tell you that the giant is awake. The acquisitions we have made have turned out to be almost all of them to be extremely good acquisitions including the Farmland acquisition some five or six years ago, the Armour acquisition, and many the industry laughed about from Smithfield is one of our very best acquisitions that we've done, and it is delivering very solid returns, as is the Farmland acquisition, as is the Smithfield and the John Morrell, the consolidations that we put together are just going extremely well. I know I'm being overly bullish with that and touting it.

I think it's going to be a troubling first quarter here with hog production. I think the rest of the business is going to do well. I think it's going to continue. You see the news in the trade journals so you know what's happening. We are cutting back even farther.

We are going to continue to be in a leadership position from here. We're going to try to lead this industry or that segment of the industry back to profitability. We're going to continue to proactively look at hog production and do what we need to do from our standpoint to manage our P&L, and hopefully position, not jeopardize anything in the long term, and put us in the right position from the hog production side. And I'm confident that we're making good decisions on that side of the business, and I'm confident in that management team.

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With that being said, Keira, will you open it up for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Our first question will come from the line of Ken Goldman from JPMorgan. Please go ahead.

Ken Goldman - *JPMorgan - Analyst*

Good morning.

Larry Pope - *Smithfield Foods - President, CEO*

Good morning, Ken.

Ken Goldman - *JPMorgan - Analyst*

One question for Bo and one for Larry, if I can. Bo, how you aggressive do you want and expect to be with any balance sheet restructuring? I guess I'm asking, is it conceivable that in a couple months, we'll see a balance sheet that has new revolvers and no maturities on debt until maybe 2013 or so?

Bo Manly - *Smithfield Foods - CFO*

Ken, I really can't be any more specific than what we have been. I'll leave it at that.

Ken Goldman - *JPMorgan - Analyst*

Okay. Larry, can we talk about Costco for a second. Maybe you mentioned this and I may have missed it. They're obviously influential in China and they obviously have a vested interest in your stock price. Why are they not putting pressure on the Chinese government to reinstate imports and if they are, why are they not being more effective in doing so?

Larry Pope - *Smithfield Foods - President, CEO*

Costco, it's an independent organization. I have sought out their help in helping to open those markets back up. They have been supportive of that. I don't know the politics inside the Chinese government and they've got -- the Chinese government's got their own issues in terms of their recession and trying to protect their market, their livestock markets, so I'm not sure if they're as interested in opening these markets back up. That's just me, my opinion. I don't have much better information than you have on that. But Costco has indicated that they are working with the government and talking to them. That's about as much as I know but I have sought it.

Ken Goldman - *JPMorgan - Analyst*

Thanks very much.

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TF-P-000013984

Operator

Our next question comes from the line of Christine McCracken from Cleveland Research. Please go ahead.

Christine McCracken - *Cleveland Research - Analyst*

Good morning.

Larry Pope - *Smithfield Foods - President, CEO*

Good morning, Christine.

Christine McCracken - *Cleveland Research - Analyst*

Just in terms of these cuts in your sow herd, the additional 3% that you announced today. I guess I'm wondering, can you give us some idea, this is now 13% of your sow base. Can you give us some idea of how many pigs you're actually raising? It seems that the productivity gains you're getting now that you cut your worst sows are actually making up for some of the total productive capacity that you've taken out.

Larry Pope - *Smithfield Foods - President, CEO*

Christine, we're not going to see -- we are seeing reductions in the number of pigs coming to our plants today from our farms. We're already seeing that. I think with this clearly, what we're cutting back now is going to have another impact. I think we're going to be in the 2 to -- between 2 and $2.5 million, giving a little bit of time for this thing to come all the way through.

Christine McCracken - *Cleveland Research - Analyst*

How much -- how many -- how large a cut do you think the industry needs to make at this point on a collective basis to get back to productivity?

Larry Pope - *Smithfield Foods - President, CEO*

Christine, everybody has a number that they feel like -- I'm not sure anyone has a good handle. What I struggle with. Let me give you -- see if this helps. What I struggle with is the fact that so much of this product is going overseas and that these export markets can be very volatile. And when you've got 20% of the business going overseas and you're killing 420,000 hogs a day, that certainly means it's something around 80 or 85,000 of those hogs are going out of this country in the form of meat to somebody else. So whenever those markets shut down, as China is right now, that has an impact back to the US.

I think we solidly need -- that's my prediction, that we solidly need a 10% cutback. I think that would make the industry very profitable and that's probably the highest that anyone is talking about. And that would put us in a position -- because I think what is going to happen, if the meat goes up or the US dollar strengthens back or you have an export, political problem in a couple of countries, this meats going to back up in the US market which is what's happening right now and you see the impact it has on the US, on US pricing and US hog markets. I think we need 10%. I don't know whether we'll even get 10%. The other thing we need is some moderation on this grain.

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Christine McCracken - *Cleveland Research - Analyst*

Thank you.

Operator

Next question comes from the line of Ken Zaslow from BMO Capital Markets. Please go ahead.

Ken Zaslow - *BMO Capital Markets - Analyst*

Hey, good morning everyone.

Larry Pope - *Smithfield Foods - President, CEO*

Hey, good morning.

Ken Zaslow - *BMO Capital Markets - Analyst*

What are your -- I guess, Bo, I don't know how much you'll tell me about this but what are your different options for your asset sales? If you're going to be -- if the cash flow is not positive but one of the things you did say is that you're looking to reduce the debt, I'm assuming that means that there are asset sales in the Q. Is that a fair assumption and kind of how do you think about the portfolio in that respect?

Bo Manly - *Smithfield Foods - CFO*

Ken, there are several smaller enterprises that we have that we would deem as non-core. And they may be in a position to be put on the sale block. We don't -- we're not in a position at this point to comment on any of those specifically. But I think in reality, we're going to have to earn our way out of this thing in terms of our situation. We can't just shrink the business. It will be helpful. It will generate some cash but we're looking for earnings to provide our ultimate solution, not necessarily just shrinking the business.

Ken Zaslow - *BMO Capital Markets - Analyst*

Will you talk about your philosophy in terms of what are the different options to you in terms of debt, convertible debt, equity? Will you kind of give us a little bit of a road map as to how you're thinking about what you want to do for the capital structure. I know you don't want to be specific, but just philosophical views.

Bo Manly - *Smithfield Foods - CFO*

I think if you look at the landscape right now, probably going back with a revolver very similar to what we have today, either in Europe or in the US, would be relatively difficult to do, just in terms of the number of issuances that have taken place out there, or much more skewed toward the ABL side than they are toward the typical cash flow revolver but I would say that there are several examples in the protein space over the past few months to include Tyson, to include JBS, where people have gone to the capital markets and used an array of different financing vehicles and credit facilities and I think you could probably pick the menu from that list that has already taken place over the past three to six months.

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Ken Zaslow - *BMO Capital Markets - Analyst*

My last question, Larry, I think last quarter you said that the pork business may very well track to the $500 million for the year. Is that still something that you believe is doable and expected?

Larry Pope - *Smithfield Foods - President, CEO*

I'm trying to remember the context.

Bo Manly - *Smithfield Foods - CFO*

Turnaround, I believe is what --

Larry Pope - *Smithfield Foods - President, CEO*

You're talking about the turnaround? I don't think so. I think he's asking --

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Ken Zaslow - *BMO Capital Markets - Analyst*

Maybe I misremembered it. But I thought that last quarter you said that for 2010 your operating profit for pork segment --

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Larry Pope - *Smithfield Foods - President, CEO*

Oh, yes, yes, okay. Whether you were talking about hog production or meat processing.

Ken Zaslow - *BMO Capital Markets - Analyst*

Very happy if you could get $500 million in hog production but I'm not really --

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Larry Pope - *Smithfield Foods - President, CEO*

I wasn't going to give you so much comfort there either.

Ken Zaslow - *BMO Capital Markets - Analyst*

Right.

Larry Pope - *Smithfield Foods - President, CEO*

I believe your question is do I believe that the pork segment can deliver $500 million in operating profits and the answer I would tell you is yes.

Ken Zaslow - *BMO Capital Markets - Analyst*

I appreciate it.

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TF-P-000013987

Operator

Our next question comes from the line of Farha Aslam from Stephens, Inc. Please go ahead.

Farha Aslam - *Stephens, Inc. - Analyst*

Good morning. Could you give us some color on how the business in turkey, Europe, Eastern Europe, is performing in the fiscal first quarter versus how they did in the fourth quarter?

Larry Pope - *Smithfield Foods - President, CEO*

Why don't you just ask that question again, Farha, for Bo and I.

Farha Aslam - *Stephens, Inc. - Analyst*

We're trying to figure out how the progression of some of your other businesses, that we don't talk about as much is going to date, versus how they were doing in the fiscal fourth quarter. Is turkey profitability improving versus the fourth quarter?

Bo Manly - *Smithfield Foods - CFO*

In terms of turkey profitability, fourth quarter of 2009 was -- we cut our losses significantly from the second and third quarters of that year. I would say that we're probably steady in terms of slight losses in our turkey business through the first half of this year and improving in the second half to profitable levels, not dramatic profitability, but some profitability in the fourth and third quarter of this fiscal year. Eastern Europe is probably steady with where we were. As we indicated we were profitable with our meat businesses in Poland and Romania. Those continue to show, those levels of profitability. A lot will depend upon currency impact in those countries in terms of what the net bottom line is. And was there a third area that you --

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Farha Aslam - *Stephens, Inc. - Analyst*

And Campofrio?

Larry Pope - *Smithfield Foods - President, CEO*

Campofrio, Farha, I would tell you is not performing -- it's not doing as well as last year and it's tracking weak, sort of losses to small profits, not much. That's an area that is not performing and then to reinforce what Bo had said, I would tell you that Poland is doing very well. We had a very good year outside of foreign currency. We had two record years. Very solid years in Poland. I'm very pleased with the business going on in Romania and I'm very pleased with the numbers we're seeing out of Mexico. These businesses, that part of the business is doing very, very well and in spite of some tough issues.

Romania's got big problems and Mexico, I don't need to tell you what's happened to pork consumption on an instantaneous basis. Swine flu is behind us in a large measure except the export markets and so I expect those businesses to do just fine. I do not expect Campofrio to do well until this recession changes the whole buying habits in Western Europe and Farha, I don't see that Western Europe is having a tough time now and I don't see Campofrio changing a great deal here until probably the end of the calendar year. I think it will muddle along at about breakeven.

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Farha Aslam - *Stephens, Inc. - Analyst*

Thank you. That's very helpful.

Operator

Our next question comes from the line of Vincent Andrews from Morgan Stanley. Please go ahead.

Jackie Ineke - *Morgan Stanley - Analyst*

This is Jackie for Vincent. Just two questions for you. First of all, how should we be thinking about pork margins going forward, given depressed lean hog value?

Larry Pope - *Smithfield Foods - President, CEO*

I guess you were asking the question how should we think -- are you asking the question relative to the pork segment or are you asking that relative to --

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Jackie Ineke - *Morgan Stanley - Analyst*

Yes, the pork processing segment.

Larry Pope - *Smithfield Foods - President, CEO*

Oh, I think the pork processing margins are going to be fine. They're going to be continuing at the levels they're at.

Jackie Ineke - *Morgan Stanley - Analyst*

Basically running -- you think you would be running above kind of a normalized 3 to 5% margin or something like that?

Bo Manly - *Smithfield Foods - CFO*

Yes. I think and you will have the benefit as we move into the -- into this fiscal year of a further enhancement of our reporting that we will break out the packaged meats segment or packaged meats element of our pork segment separate from the fresh meat segment so you'll be able to track that and actually use that for comparative purposes. You'll have much more transparency as we move forward. I think there is the jeopardy, if we are successful in creating cutbacks in live animals, increasing pig prices, that you may see some pressure moving forward in this year. Frankly, we hope the fresh meat side of the business. Not that we're -- but that is indicative of hopefully of improved profitability for the Company as a whole. But we continue to be very, very impressed with the work that's been done by George Richter and his team on the packaged meats area as well as consolidation of fresh meat and our anticipating improved results.

Larry Pope - *Smithfield Foods - President, CEO*

Jackie, just to follow up with Bo, I think you understand that if our profitability and hog production improves, that raises the price of livestock generally and that increases the input costs in the pork segment, which squeezes those margins for a time until it equilibrates. That was the point he was making. If hog prices go up, then likely our margins in the pork segment will be lower because our input costs will be higher.

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Jackie Ineke - *Morgan Stanley - Analyst*

Right, right.

Bo Manly - *Smithfield Foods - CFO*

Thanks for the clarification.

Jackie Ineke - *Morgan Stanley - Analyst*

And then just one other question. Are you thinking about hedging any differently in terms of your preferring shorter or longer dated contracts?

Larry Pope - *Smithfield Foods - President, CEO*

We continue to look at that, Jackie. Hedging is an important part of our business and has been and we have been very successful with that and our Chairman is very much involved in that as well as our hedging, our risk management department which does a very good job and we are year in and year out, very successful. There are sizable profits that come from that and we use different techniques. We are changing some of our views terms of how to hedge grain at this point, in terms of not the same way we have in the past and we are trying to -- I think the best way to say our hedging strategy now is that we will -- we believe we have a very solid meat business, so the goal is to really manage -- through hedging, to manage the profitability or losses in our live production business to manage those to a level that we know will not damage the Company. And so we may even hedge in losses if need be in order to minimize those in order to get the maximum benefit out of the meat business. So if there's any thought process, it's from our side in terms of changes, thinking more about windows or such -- ranges as of opposed to finite numbers, and secondly to manage the hog production side so that we don't have these giant losses that we've experienced and we try to prevent those from happening again.

Jackie Ineke - *Morgan Stanley - Analyst*

Okay. Great. Thanks so much.

Operator

Our next question comes from the line of Tim Ramey from DA Davidson. Please go ahead.

Tim Ramey - *DA Davidson - Analyst*

Good morning. Thinking back to a year ago when we were talking about -- I can't remember if it was exactly a year ago when you announced your 10% production cut, but thereabouts. It almost seems like we're starting in a deeper hole right now with hog prices significantly lower than they were. Now, I understand corn prices are lower too but what makes you confident that 3% is the right number?

Larry Pope - *Smithfield Foods - President, CEO*

It's another part of the business that we can do something about. One of the things that we're doing is managing what you can do and the 3% relates to one of our operations and it's our -- I'll tell you, it's our Texas operation that sells pigs to seaboard.

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Seaboard knows that. It's one operation we can essentially eliminate that process, cut all the costs and get full benefits from it and it reduces the herd size and eliminates pigs on the market. So it's what we can do. Is it the right number? Who in the world knows?

That 3%, let me say that, our 3% will not fix the hog industry. That part I'm confident of. Somebody else has got to do something. We cut 13%. The first 10% didn't fix it. I don't think us going from 10 to 13 is going to fix the hog business. Bo, do you have any comments?

Bo Manly - *Smithfield Foods - CFO*

I think we still have to be mindful, Tim, that we still have obligations. Some of these long-term contracts that people like Seaboard, so in actuality, we will reduce our sow numbers, we will then buy pigs in the open market to replace those obligations and deliver the pigs to Seaboard. So we will in effect reduce our exposure to the sow side and to that side of the business, reduce pigs for the whole industry as well as ourselves and meet all of our obligations. And there are some other opportunities out there like those if we can find the right combination of supplies to replace what we need to do to maintain our relationships with those other suppliers.

Tim Ramey - *DA Davidson - Analyst*

That sounds like actually a closing of an operation rather than just a furloughing of a barn for a period of time. Is that right?

Bo Manly - *Smithfield Foods - CFO*

No. In terms of those operations, they are, frankly, a large part of Seaboard's business. We supply over 20 -- about 20% of Seaboard's raw material so they're going to have to address that issue at some point down the road.

Tim Ramey - *DA Davidson - Analyst*

Thanks.

Operator

Our next question comes from the line of Christina McGlone from Deutsche Bank. Please go ahead.

Christina McGlone - *Deutsche Bank - Analyst*

Good morning. Thank you.

Larry Pope - *Smithfield Foods - President, CEO*

Good morning, Christina.

Christina McGlone - *Deutsche Bank - Analyst*

Larry, I'm wondering what you are seeing from the industry? Like you've said, you've done a lot. Are you seeing other players start to liquidate? And then in general, I mean, how long -- in your thinking, what's the time period that this will play out over?

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Larry Pope - *Smithfield Foods - President, CEO*

Christina, I guess the best thing I can -- the best anecdotal information that I can give you is that at the Pork Expo this time last year, there was not much interest in -- not much discussion about cutting back. At the Pork Expo that happened I guess two weeks ago now, that was the key subject of the discussion of every producer, is that something has got to happen. And so that's a very positive.

Secondly, the banks have, a lot of the equity, probably 40 to 50% of the equity in this business has gone out so the banks are running out of assets to loan against and so there's pressure from the banks in terms of all of these farmers need some sort of financial help in terms of covenants or more money or restructured loans and the banks are running out of other assets to look to. And so I think that that combination and the fact that the summer hog market has just completely fallen apart for these producers and they know that the fall generally is lower prices than the summer, has got to be an impetus to do something.

Now, you ask how long is it going to take? This does take some time, Christina. I think this could take the rest of the calendar year for this liquidation to really start to have sizable numbers and it would be in the next calendar year that you would see the benefits.

Christina McGlone - *Deutsche Bank - Analyst*

Okay. And then in the export markets, when you were talking about Russia, did that market reopen? It sounded like you were shipping there. I didn't realize it had reopened.

Larry Pope - *Smithfield Foods - President, CEO*

It has. There are certain plants that are listed and delisted plants and we have a number of the listed plants and so, yes, Russia is open to those plants that are still on its approved list to ship into that country.

Bo Manly - *Smithfield Foods - CFO*

I don't think technically Russia ever closed. I think they just reiterated that pigs could not be sourced from any area that had flu at one point in time and basically just enforced their delisting activities that they had had already in place.

Larry Pope - *Smithfield Foods - President, CEO*

And it was the original list of those first few states because there's been flu incidences in almost every state now. But Russia did not recognize those other states.

Bo Manly - *Smithfield Foods - CFO*

Let's be perfectly clear. The actions in Russia and the actions in China had absolutely no scientific basis whatsoever for food safety reasons, pig safety or anything else. They were strictly non-tariff trade barriers to protect their own markets, period.

Christina McGlone - *Deutsche Bank - Analyst*

I know Mexico's open. Can you describe the demand that's coming out of Mexico since H1N1?

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Larry Pope - *Smithfield Foods - President, CEO*

Robust. How about that?

Bo Manly - *Smithfield Foods - CFO*

Record levels.

Christina McGlone - *Deutsche Bank - Analyst*

And -- okay. And why have ham prices fallen, then?

Larry Pope - *Smithfield Foods - President, CEO*

Still got a lot of hams, Christina. Some of those hams go to Russia from other producers who can't send them to Russia. And the deli business, which is where some of those hams go in the deli case, some of that business as you would imagine has seen some declines.

Bo Manly - *Smithfield Foods - CFO*

And a year ago, at this moment in time, we were the beneficiaries of large demand in China for carcasses, as they were approaching the Olympics and trying to solve some of their own domestic issues as far as food supply was concerned and that did take a significant amount of meat at the margin away, out of the United States and really created disappearance from the whole world. So we did have a factor a year ago that is now coming home to roost in terms of our own domestic and international demand for meat products.

Operator

And with that, speakers, I'll now turn the call back over to you.

Keira Ullrich - *Smithfield Foods - Director of IR*

Thank you everyone for joining us today. We appreciate it. Please follow up with me offline if you have any further questions.

Operator

And ladies and gentlemen, that does conclude your conference call for today. Thank you for your participation and for using AT&T Executive Teleconference Service. You may now disconnect.

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